



Payday Loans - The Ugly Truth

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If you're like most people, you've likely experienced at least one time in your life when you needed to pay bills or buy essentials, but didn't have the funds to cover your expenses. You might have considered taking out a payday loan to float you for a while, especially if you didn't have access to funds from credit cards or savings. Unfortunately, the consequences of getting a payday loan can be rather severe.

The idea behind payday loans is quite simple. You give a check to the payday lender for a small amount of money (typically between \$500 and \$1000), and the lender pays you the value of the check in cash, less a lending fee. After the term of the loan has come to an end (payday loans typically last less than two weeks), the lender deposits the check.

While this seems reasonable, it is very easy to run into problems with payday loans. First, the lending fees are quite high, sometimes as much as 25% of the amount of the check. Paying a 25% charge to borrow money for a week or two can quickly eat into your income.

Second, if you can't cover the payday loan when the term ends, you'll have two choices: either take out another payday loan to cover the first one, or let the check bounce. Both scenarios have serious financial consequences.

If you take out another payday loan, you'll have to pay another lending fee. Say your first payday loan was for \$1,000 with a 25% fee. You've promised to pay back \$1,000, but you only receive \$750. If you take out another loan, you've lost another \$250, and now you've spent \$500 to essentially borrow the same \$1,000. It's easy to see how that can put you in real trouble - if you have to take out four consecutive loans, you've lost the entire amount you borrowed to fees, plus you still owe the \$1,000 you borrowed.

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If the check bounces, your problems will really get bad. You'll have to pay a returned check fee on top of the loan amount and lender fees. If you don't cover the debt right away (within a week or less), the lender may be able to sue you for double the amount you owe - in some cases, even more.

While taking out a payday loan can get you through a temporary financial crisis, it should be used as a last resort. Even if your setback is truly temporary, you'll still end up paying an exorbitant amount to borrow the money. If your financial problems are longer term, the fees charged by payday lenders can put you in financial ruin.

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